

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1460-01  
Bill No.: HB 426  
Subject: Public Service Commission; Utilities; Water Resources and Water Districts  
Type: Original  
Date: February 19, 2003

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
General Revenue	(\$25,000)	(\$25,000)	(\$25,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$25,000)</b>	<b>(\$25,000)</b>	<b>(\$25,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Public Service Commission*	\$0	\$0	\$0
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Assumes costs to the Fund of \$534,189, \$599,430, and \$614,880 and offsetting increases in assessments against regulated utilities in the next three fiscal years.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### **FISCAL ANALYSIS**

#### **ASSUMPTION**

Officials from the **Department of Economic Development, Office of Public Counsel (OPC)** assume the proposal would allow a water corporation to request large increases in water rates from the Public Service Commission on a very short expedited time frame. The OPC would have a duty to conduct detailed analysis in any case based upon such requests.

The proposal would provide for addition of costs related to infrastructure main replacements for water corporations outside the normal rate case procedures, through the addition of a surcharge to customers' bills. However, the proposal does not provide for a prudence review at the time that the surcharge is added.

SB 125 does not provide for any review of the reasonableness and prudence of costs associated with water mains for which an infrastructure system replacement charge (ISRC) is allowed until the company files a general rate increase case, or if the IRSC surcharge exceeds 10% of base revenue. At such time, OPC would anticipate the need to review the prudence of the costs incurred relating to the water main replacements and the associated planning process would occur in the general rate proceeding.

ASSUMPTION (continued)

In the past, OPC has filed extensive engineering testimony relating to water main replacement programs and participated in extensive negotiations and planning of how the company should address the problem. The issue of developing a systematic plan to address the decision process of when to replace water mains was first raised by OPC in the mid-1990s. OPC no longer has an engineer on staff; therefore, it would be required to hire a consultant in this field of expertise in order to provide analysis in any water rate case in which a company has implemented an ISRC surcharge. Based on past practices and current planned replacement rates, OPC would anticipate that a rate case containing this issue would arise at least once every other year. For large companies, OPC anticipates that these costs would be approximately \$25,000 per year.

However, because this proposal would apply to all water corporations in the state, and because there are currently over 50 water companies regulated by the Public Service Commission, this legislation could create additional filings each year from each of these companies. If more than a handful of these companies file each year, OPC would incur thousands of dollars in expenses that are not included in the assumptions contained in projecting the fiscal impact noted above.

In addition, imposing an ISRC would likely require OPC to investigate and audit water corporations that impose such surcharges to ensure that corresponding decreases in other costs are recognized in rates. This will shift the burden to consumers to prove in earnings complaint cases that rates need to be reduced to reasonable levels. There is a potential for complex issues to develop in these cases involving the interplay of the single-issue IRSC increases and general water rate issues. OPC anticipates being able to address these issues with current accounting expertise; however, the nature and frequency of these issues could strain current resources and require further fiscal impacts in the future.

Officials from the **Department of Economic Development, Public Service Commission (PSC)** assume the proposal would allow all PSC's largest regulated water corporation, which currently has nine separate operating districts to file a petition with the PSC to establish a line-item billing surcharge for the recovery of certain infrastructure system replacement costs (Section 393.1003.1, RSMo). Additionally, the provisions of the bill would allow this corporation to file changes to such a surcharge two times per year (Section 393.1006.3).

In addition to the allowed surcharge, the provisions of the proposal require an annual reconciliation of the surcharge revenues collected and the underlying allowable costs associated with the surcharge, with an appropriate adjustment to the surcharge reflecting that reconciliation then being required. The provisions of the proposal also require an adjustment to an established surcharge during a general rate case, as well as requiring that a general rate case be filed at least

### ASSUMPTION (continued)

once every three years. Also, each initial petition filing seeking to establish the allowed line-item billing surcharge would involve the PCS and review of revised utility tariff provisions, and each subsequent adjustment to an established surcharge would also involve tariff revisions.

Under the provisions of this proposal, the time allowed for PSC Staff review and PSC action is 60 days from the date a petition is filed and 120 days from the date a petition is filed, respectively (see Section 393.1006.2.(2) & (3), RSMo). These time limits would apparently not only apply to the initial petition seeking to establish an allowed surcharge, but also to any petition filing for an adjustment to the surcharge necessitated by the annual reconciliation of revenues and allowable costs.

Under the provisions of this proposal, the PSC would have the authority to promulgate rules related to the administration of the allowed line-item billing surcharge, which is an action that will obviously be necessary.

### Potential Utility Use of the Provisions of the Proposal

PSC-regulated water utilities are, or will be, facing the necessity of establishing infrastructure replacement programs, and will thus likely seek to establish surcharges under the provisions of Section 393.1003.1, RSMo. In particular, it is well known that the largest of the PSC's regulated water corporations has historically sought "special treatment" for its infrastructure replacement program and will thus almost certainly seek the establishment of one or more line-item billing surcharges related to that program under the provisions of Section 393.1003.1, RSMo. Based upon the manner in which this company's rates are structured and the language of the bill, it would be possible for this company to request a separate surcharge for each of its nine operating districts - and PSC assumes this would be done when calculating the fiscal impact of this proposal. With further regard to assessing the fiscal impact of this proposal, PSC also assumes that at least ten (10) other PSC regulated water utilities are also likely to seek the establishment of a surcharge under the provisions of the proposal.

### Increased Staffing Needs Resulting from the Proposal

Based upon the potential use of the provisions of this proposal, PSC believes that a significant increase in the PSC Water & Sewer Department's workload could occur upon passage of this proposal. As a result, PSC assumes seven additional FTE, along with an increase in equipment and expense, would be necessary. PSC estimates the need for the following additional staff:

ASSUMPTION (continued)

Rate and Tariff Examiner I  
 Utility Engineering Specialist I  
 Utility Regulatory Auditor V  
 Utility Regulatory Auditor IV  
 Utility Regulatory Auditor I/II/III  
 Regulatory Law Judge  
 Legal Counsel

**Oversight** assumes the Public Service Commission would adjust assessments against regulated utilities to offset increased costs due to this proposal; however, the amount of assessment against regulated utilities is limited to one-fourth of 1 percent (.0025) of gross intrastate operating revenues of all utilities under PSC jurisdiction. If assessments are insufficient to cover PSC costs, then the PSC would have to seek an increase in the amount which may be assessed or seek funding for the PSC from different sources.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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**GENERAL REVENUE**

<u>Cost - OPC</u>			
Consultant Exp. (Engineer)	<u>(\$25,000)</u>	<u>(\$25,000)</u>	<u>(\$25,000)</u>

<b>ESTIMATED NET EFFECT TO GENERAL REVENUE FUND</b>	<b><u>(\$25,000)</u></b>	<b><u>(\$25,000)</u></b>	<b><u>(\$25,000)</u></b>
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**PUBLIC SERVICE COMMISSION  
FUND**

<u>Income - PSC Fund</u>			
Increased Assessments on Regulated Utilities	\$534,189	\$599,430	\$614,880

<u>Cost - Public Service Commission</u>			
Personal Service (7 FTE)	(\$293,099)	(\$360,511)	(\$369,524)

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
Fringe Benefits	(\$118,617)	(\$145,899)	(\$149,546)
Expenses	(\$75,258)	(\$93,020)	(\$95,810)
Equipment	<u>(\$47,215)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost to PSC	<u>(\$534,189)</u>	<u>(\$599,430)</u>	<u>(\$614,880)</u>

**ESTIMATED NET EFFECT ON  
 PUBLIC SERVICE COMMISSION  
 FUND**

**\$0                      \$0                      \$0**

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

Water districts that are small businesses could be expected to have a fiscal impact as a result of this proposal.

DESCRIPTION

This proposal allows water corporations serving more than 10,000 customers to file petitions with the Public Service Commission for rate adjustments that recover from customers prudently incurred costs for infrastructure replacement projects. Eligible projects may include replacement of deteriorating equipment and non-reimbursed costs of facility relocations required by highway construction. Projects may not increase revenue by connecting to new customers and must not have been included in the corporation's last general rate case.

PCS staff may examine the petition and submit a report within 60 days. The PSC may hold a public hearing and must issue an order that becomes effective within 120 days after the petition is filed. Adjustments must appear on the customer's bills as a separate charge and may only apply to classes of customers that receive benefits from the infrastructure replacement project.

DESCRIPTION (continued)

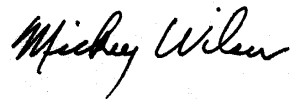
Charges must be applied in a manner consistent with the customer class cost-of-service study from the corporation's most recent general rate proceeding. Charges will not be approved if the corporation's last general rate proceeding was more than three years before the petition was filed or if the adjustment produces revenue less than \$1 million or more than 10% of the base revenue level approved in the corporation's last general rate proceeding.

Rates may not be adjusted more than twice a year and charges may not be collected for more than three years unless the corporation has filed or is the subject of a new general rate proceeding. Estimated monthly charges are subject to annual reconciliation.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Public Service Commission  
Office of Public Counsel



Mickey Wilson, CPA  
Director  
February 19, 2003